

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III – Actuarial Memorandum and Certification

OVERVIEW

This document contains the Part III Actuarial Memorandum for CareSource Kentucky Co.'s (CKY's) individual comprehensive medical block of business, effective January 1, 2019. These revised individual rates are guaranteed through December 31, 2019. These products are offered both on and off the Individual Insurance Exchange. This Actuarial Memorandum is submitted in conjunction with the Part I Unified Rate Review Template (URRT).

The purpose of the Actuarial Memorandum is to provide certain information related to the submission of premium rate filings, including support for the values entered in the Part I URRT, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This memorandum may not be appropriate for other purposes.

The information in this Actuarial Memorandum has been prepared for the use of CKY and is intended for use by the Kentucky Department of Insurance (DOI), the Center for Consumer Information and Insurance Oversight (CCIO), and their subcontractors to assist in the review of CKY's individual rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this Actuarial Memorandum or rate filing to other users. Likewise, other users of this Actuarial Memorandum should not place reliance upon this Actuarial Memorandum that would result in the creation of any duty or liability for Milliman under any theory of the law.

The results are actuarial projections. Actual experience will differ for a number of reasons including, but not necessarily limited to, population changes, claims experience, and random deviations from assumptions.

The 2019 plan year premium rates provided in this Actuarial Memorandum were developed based upon the current Affordable Care Act (ACA) statutes and regulations, relevant CMS and HHS guidance, Executive Orders, and court decisions in full force and effect as of date this Actuarial Memorandum is submitted. Accordingly, the 2019 plan year premium rates provided in this Actuarial Memorandum are contingent upon the current ACA statutes and regulations, relevant CMS and HHS guidance, Executive Orders, and court decisions not changing, including, but not limited to, the cost-sharing reduction subsidies not being funded for the 2019 plan year, the individual mandate penalty not being enforced for the 2019 plan year, and the continued availability of advanced premium tax credits to eligible individuals for the 2019 plan year. Accordingly, CKY retains and reserves the right to amend this Actuarial Memorandum and 2019 plan premium rates should there be any changes to the ACA statutes and regulations, relevant CMS and HHS guidance, Executive Orders, and court decisions.

As prescribed by the Kentucky DOI, the premium rates developed and supported by this Actuarial Memorandum assume that Cost Share Reductions (CSR) will not be funded as described in current regulations and guidance. The Kentucky DOI prescribes the impact of CSR subsidy non-payment should be spread across on-exchange silver plans only in the single risk pool. Future modifications in legislation, regulation and / or court decisions regarding the funding of CSR payments may affect the extent to which the premium rates are neither excessive nor deficient.

I. GENERAL INFORMATION

Company Identifying Information

Company Legal Name:	CareSource Kentucky, Co.
Address:	P.O. Box 8738, Dayton, Ohio 45401-8738
Toll-Free Number:	1 800 479 9502
Filer Email:	[REDACTED]
State:	Kentucky
HIOS Issuer ID:	45636

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Market: Individual
Effective Date: January 1, 2019

Company Contact Information

Primary Contact Name:
Primary Contact Telephone Number:
Primary Contact Email-Address:



Consultant Contact Information

Primary Contact Name:
Primary Contact Telephone Number:
Primary Contact Email-Address:



Description of Benefits

These products provide comprehensive medical benefits for services received within the provider network. The products have various cost sharing designs, which are a combination of deductibles, coinsurance, and copayments that vary for in-network services.

Products 45636KY001 and 45636KY002 are HMO products with Gold, Silver, Bronze, and Catastrophic (in the case of 45636KY001) benefit plan options and provide coverage for inpatient, outpatient, physician, prescription drugs, and miscellaneous services subject to deductible, coinsurance, and copays. All member cost-sharing (deductibles, coinsurance, and copays) accrue toward the annual out-of-pocket maximum. Both products have pharmacy cost sharing with a five-tier (generic, preferred brand, non-preferred brand, preferred specialty, and non-preferred specialty) copayment or coinsurance structure.

All plans within the products have the same Essential Health Benefits (EHBs). Product 45636KY001 does not include additional non-EHB coverage. Product 45636KY002 includes additional non-EHB coverage for adult eyewear, adult routine eye examinations, and adult dental services. No EHB substitutions were made.

II. PROPOSED RATE INCREASE(S)

This filing is a requested rate change filing for twelve of CKY's individual Affordable Care Act (ACA) compliant non-group plan rates originally filed for effective dates January 1, 2018 through December 31, 2018. There are no new plans offered. The experience basis, benefit plans, rating factors, and other projection assumptions are updated for this filing.

CKY's 2019 plan designs include copay, deductible, out-of-pocket maximum, and other benefit changes from their existing 2018 plan designs to comply with changes in the most recent AV Calculator and also to better compete in the market.

We develop premium rates for these individual plans using CKY's 2017 individual experience, in conjunction with internal research proprietary to Milliman and other industry studies and surveys. We consider a number of items in developing the premium rates, including but not necessarily limited to the:

- Projected morbidity level of the population anticipated to purchase the products,
- Proposed benefit plan designs,
- Anticipated medical trend, both utilization and cost of services,
- Applicable taxes and fees, including those newly applicable since 2014 under ACA, and
- Anticipated risk adjustment payments (receipts).

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This memorandum addresses the rate increase requested for CKY's individual HMO product, which impacts 52,707 members as of February 2018. [REDACTED]

[REDACTED] These plans are ACA compliant plan rates, effective for 12 months beginning January 1, 2019 and ending December 31, 2019. Exhibit 1 displays the rate change by plan and area.

Reason for Rate Change

- Base Experience – CKY's 2016 and 2017 individual ACA experience are the bases for CKY's 2018 and 2019 premium rates, respectively. CKY's 2017 experience period allowed claims per member per month (PMPM) adjusted for changes in experience member characteristics results in [REDACTED] in CKY premium rates.
- Trend – We price CKY's 2019 premiums using a [REDACTED] annual trend. This results in a [REDACTED] in premium rates; [REDACTED] annual trend to project from 2018 to 2019, and a [REDACTED] in trend to project from 2017 to 2018 (using [REDACTED] to project from 2017 to 2018 instead of the [REDACTED] annual trend used to project from 2017 to 2018 in last year's pricing).
- Morbidity – CKY estimates it will [REDACTED] 2019 risk adjustment transfers of [REDACTED] per member per month (PMPM). CKY's 2018 risk adjustment transfer [REDACTED] PMPM. This change in risk adjustment as a percent of premium [REDACTED]. We estimate a [REDACTED] 2017 to 2019 statewide morbidity [REDACTED] due to the removal of the individual mandate in the 2019 marketplace. We estimate an additional [REDACTED] 2017 to 2019 morbidity [REDACTED] due to anti-selective lapsation of members enrolled with carriers exiting the market. This combined change [REDACTED]
- Administrative costs, taxes and fees, profit and risk loads – The total retention [REDACTED] from [REDACTED] PMPM in 2018 to [REDACTED] PMPM in 2019 resulting in a percent of premium [REDACTED].
- CSR Subsidy Shortfall Adjustment – Based on guidance from the Kentucky DOI, this filing assumes CSR subsidies will not be funded in 2019, but CKY will be responsible for paying claims at the reduced cost sharing variant levels. We spread the impact of the increased claim payments across on-exchange silver plans in the single risk pool, based on guidance from the Kentucky DOI. [REDACTED]
- Plan Benefit Relativity – Due to changes in benefits for AV Calculator compliance and competitive reasons (as well as changes in determining the plan design behavior factors for plans), CKY's plans are somewhat [REDACTED].
- Other Factors – Other Factors includes changes in plan mix and provider reimbursement and pharmacy contracting changes resulting in [REDACTED] in premium rates.

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Table 1 CareSource Kentucky Co. Approximate Rate Increase Development	
Experience Change	██████
Annual Trend Change	██████
Risk Adjustment / Morbidity Change	██████
Retention Change	██████
CSR Subsidy Adjustment Change	██████
Plan Benefit Relativity	██████
Other Changes	██████
2018 to 2019 Rate Change	██████

There are a number of 2018 to 2019 plan-specific changes that cause the rate increase to vary by plan, including changes in plan benefits, pricing model changes in determining pricing values and the plan design behavior factors, changes to the provider reimbursements, and changes in CSR mix. We apply these changes at the benefit plan level resulting in different rate increases by plan.

Rate Change Not Attributable to Experience

The rate change not attributable to experience is approximately ██████. This includes changes for trend, benefits, contractual arrangements with providers and pharmacies, changes in statewide morbidity, retention, and assumed shift in CSR mix.

Rate Change History

CKY's individual HMO product rate changes were ██████ in aggregate, for 2018, 2017, and 2016 respectively, reflecting 2017, 2016, and 2015 enrollment by plan.

Average Annual Premium

The average annual 2019 premium is ██████. It is 12 times the ██████ premium PMPM shown in Worksheet 1, Section III of the 2019 URRT.

The average annual 2018 premium is ██████. It is 12 times ██████ premium PMPM.

Number of Policyholders Covered Lives

There are ██████ policyholders and ██████ covered lives in February 2018.

III. EXPERIENCE PERIOD PREMIUM AND CLAIMS

CKY is a managed care organization, contracting with provider networks to provide medical and pharmacy care to its members. CKY contracts with carriers on a fee-for-service basis. CKY's contractual arrangements for actual claims for services were directly incorporated in the development of the 2019 rates.

Claims Paid Through Date

The claims incurred in the experience for both non-capitated and capitated services reflect payments through February 28, 2018.

Premiums (Net of MLR Rebate) in Experience Period

The earned premium reported in Worksheet 1 of the URRT reflects the sum of member level premium for the 2017 experience period. CKY's 2017 individual loss ratio exceeded the MLR requirement. Therefore,

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an adjustment for MLR rebates was not included. CKY's 2017 premium is not net of its estimated 2017 risk adjustment payment, per the 2019 instructions.

Allowed and Incurred Claims Incurred During the Experience Period

CKY's incurred claims include fee-for-service claims and prescription drug claims.

The allowed claims were provided directly from CKY's claim records.

We review large claims but do not make a specific adjustment for large claims since CKY's claims volume is sufficiently large such that large claims do not have a material impact on the average allowed claims PMPM.

CKY provided 2017 claims on a completed basis by using lag development factors for lags across all commercial services. This method estimates the portion of claims that have been paid to date for each incurral month based on past claim lag data, which reflects historic time lags in CKY's medical and prescription drug claim data between the month of service (i.e., the incurral month) and the month of claim processing (i.e., the processed month).

Table 2 displays a breakdown of the individual allowed claims, incurred benefits, and earned premium for CKY's 2017 Kentucky experience.

Table 2 CareSource Kentucky Co. 2017 Experience			
	Allowed	Paid	Premium
Claims Paid through February 2018			
Incurred But Not Reported (IBNR)			
Earned Premium			
Total			

IV. BENEFIT CATEGORIES IN WORKSHEET 1, SECTION II OF THE URRT

Experience: The experience period claim information by benefit category represents CKY's ACA-compliant individual medical plans in Kentucky in 2017.

We categorize utilization and cost information by benefit using CKY's 2019 projected Kentucky claims distribution by major service category. CKY's projected 2019 fee-for-service medical claims are included by service category:

- **Inpatient Hospital:** Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.
- **Outpatient Hospital:** Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation, and other services provided in an outpatient facility setting and billed by the facility.
- **Professional:** Includes non-capitated primary care, specialist, therapy, the professional component of laboratory and radiology, and other professional services, other than hospital-based professionals whose payments are included in facility fees.

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- Other Medical: Includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services, and other services. The measurement units for utilization used in this category are a mix of visits, cases, procedures, etc.

CKY's projected prescription drug claims net of rebates are included in the "Prescription Drug" line in the URRF with a benefit category of "Prescriptions".

Credibility Manual: The experience period claim information was deemed credible. Therefore, no credibility manual was required to develop the 2019 projected allowed experience claims.

V. PROJECTION FACTORS APPLIED TO EXPERIENCE

CKY's rates are based 100% on an experience rate as their 2017 experience reflects [REDACTED] member months, which we deem fully credible.

Projected Enrollment

We project CKY's 2019 Kentucky enrollment based on CKY's projections. Table 3 shows CKY's assumed 2019 individual enrollment by metal level and plan.

Table 3 CareSource Kentucky Co. Projected 2019 Member Months by Product and Metal				
Metal:	KY001	KY002	Total	% Distribution
Gold	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Silver	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Bronze	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Catastrophic	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Changes in the Morbidity of the Population Insured

We estimate a [REDACTED] 2017 to 2019 morbidity [REDACTED] to the statewide risk pool to reflect the removal of the individual mandate. We estimate an additional [REDACTED] 2017 to 2019 morbidity [REDACTED] due to anti-selective lapsation of members enrolled with carriers exiting the market. This results in an overall morbidity [REDACTED] %.

Changes in Benefits

We adjust CKY's 2019 index rate to reflect anticipated changes in the average utilization of services due to differences in average 2017 cost sharing requirements and average 2019 cost sharing requirements.

We use Milliman's *Health Cost Guidelines (HCGs)*, in conjunction with the historical experience of CKY's Individual market block of business, in order to estimate the benefit changes for each of the items listed above.

EHBs are consistent between the 2017 experience period and the 2019 projection period, except a child hearing aid benefit has been added as an EHB. However, CKY's mix of EHB and non-EHB services changed between the experience and projection period. We account for these changes separately, including adjustments for child hearing aids, adult routine vision examinations, adult eyewear, and adult dental benefits. We project CKY's 2017 EHB claims to increase to account for the child hearing aid benefit.

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Changes in Demographics

We assume CKY's 2019 individual enrollment will have the product type and metal level as provided by CKY and shown in Table 3. Within each product and metal, we assume CKY's 2019 individual enrollment distribution by age, gender, and tobacco status will mirror the demographics underlying CKY's emerging 2018 enrollment.

Our rate projection is based on 2017 experience including the average demographics and geographic mix of the 2017 enrollees. Our development of the 2019 Index Rate reflects the anticipated differences in the demographic, tobacco, and geographic mix of the population, as compared to the 2017 experience period.

Other Adjustments

CKY has negotiated 2019 Kentucky provider discount levels as a percent of Medicare that are different than the percent of Medicare reimbursement levels underlying the 2017 experience. We adjust CKY's 2019 index rate for the difference between the 2017 and 2019 provider reimbursement levels as a percent of Medicare, changes in county level enrollment mix, and for expansion into new counties.

We also account for the change in plan mix as it raises the allowed amount PMPM from 2017 to 2019 and reflects lower utilization in 2019 due to the [REDACTED] benefit plan design mix and shifting CSR mix in 2019. Table 4 displays these adjustments.

Table 4 CareSource Kentucky Co. Development of Other Adjustment Factors	
Demographic and Tobacco Change	[REDACTED]
Provider Contracting Change	[REDACTED]
Covered Benefit Changes	[REDACTED]
Plan Mix and its Impact on Utilization	[REDACTED]
Resulting Other Factor Change	[REDACTED]
<i>Note: Factors are rounded.</i>	

Trend Factors

We trend CKY's 2017 Kentucky experience forward to 2019 using an aggregate annual [REDACTED] trend (annual utilization and charge trends of approximately [REDACTED], respectively), as shown in Table 5. We develop the trend assumptions with input from CKY and general industry reports regarding recent trends in medical inflation.

Table 5 CareSource Kentucky Co. 2017 to 2019 Annual Trend			
Service Category	Utilization Trend	Cost Trend	Total Trend
Inpatient Hospital	[REDACTED]	[REDACTED]	[REDACTED]
Outpatient Hospital	[REDACTED]	[REDACTED]	[REDACTED]
Professional	[REDACTED]	[REDACTED]	[REDACTED]
Other Medical	[REDACTED]	[REDACTED]	[REDACTED]
Capitation	[REDACTED]	[REDACTED]	[REDACTED]
Prescription Drug	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]
<i>Note: Factors are rounded.</i>			

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VI. CREDIBILITY MANUAL RATE DEVELOPMENT

We determine CKY's 2017 individual experience of [REDACTED] member months is fully credible, and do not develop a manual rate.

Source and Appropriateness of Experience Data Used

Not applicable.

Projected Enrollment

Not applicable.

Adjustments Made to the Data

Not applicable.

Inclusion of Capitation Payments

Not applicable.

VII. CREDIBILITY OF EXPERIENCE

CKY's 2017 ACA-compliant experience includes claims for [REDACTED] member months, which we consider 100% credible.

VIII. PAID TO ALLOWED RATIO

The paid to allowed ratio shown in Worksheet 1, Section III of the URRT was developed by calculating the average ratio of paid (i.e., after member cost sharing) to allowed (i.e., before member cost sharing) claims for each plan, weighted by projected member months by plan as shown in Appendix A. Table 6A provides the experience paid to allowed factors for CKY's Individual ACA metal level plans.

Table 6A CareSource Kentucky Co. Average Experience Paid to Allowed Factor Support				
Metal Level	Member Months	Paid Claims PMPM	Allowed Claims PMPM	Paid-to-Allowed Ratio
Gold	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Silver	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Bronze	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Catastrophic	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The projected paid and allowed claims reflect the member month weighted average by metal level from Worksheet 2, Section IV of the URRT, but without the impact of risk adjustment. The total paid-to-allowed ratio is consistent with Worksheet 1, Section III of the URRT. The average AV metal value is based on AVs calculated using the federal AV calculator, weighted on projected allowable cost by metal level. Table 6B provides the projection paid to allowed factors for CKY's Individual ACA metal level plans.

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Table 6B CareSource Kentucky Co. Average Projection Paid to Allowed Factor Support				
Metal Level	Member Months	Paid Claims PMPM	Allowed Claims PMPM	Paid-to-Allowed Ratio
Gold				
Silver				
Bronze				
Catastrophic				
Total				

We price 2019 plans using an internal Milliman cost relativity model based on Milliman's commercial *HCGs* to calculate the paid to allowed ratios. This proprietary model is updated annually and developed using experience of over 40 million lives. The model estimates actuarial equivalent relative values of different benefit plans using estimated medical costs calibrated to CKY (including service area, provider reimbursement, degree of health care management, etc.). Appendix A displays the average paid to allowed ratios for each plan.

IX. RISK ADJUSTMENT AND REINSURANCE

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

CKY estimates it will [REDACTED] PMPM in 2017 risk adjustment transfers for Kentucky individual ACA members. This amount does not include the risk adjustment administrative fee.

Projected Risk Adjustments PMPM

Risk transfer payments are estimated at the plan level using the published transfer payment formula, taking into account CKY's expected differences from the state average. The composite risk adjustment transfer payments are allocated proportionally to all plans based on plan premiums. CKY estimates it will [REDACTED]

[REDACTED]

[REDACTED]

The risk adjustment [REDACTED] when including the \$0.15 PMPM risk adjustment administrative fee.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

The federal transitional reinsurance program is a temporary program that ended in 2016. Since this program is not expected to continue in 2019, we assume that reinsurance contributions and reinsurance recoveries will be zero. As a result, we did not project any federal transitional reinsurance contributions or recoveries for 2019.

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X. NON-BENEFIT EXPENSES AND PROFIT AND RISK

Exhibit 2 displays the total expenses, profit, and taxes and fees (Exhibit 2 values may not tie to URRT Worksheet 1, Section III values due to rounding within URRT Worksheet 1).

Administrative Expense Load

We estimate CKY's administrative expenses to be [REDACTED] PMPM, as shown in Table 7. This estimate is entered as a percent of premium that does not vary by plan in Worksheet 1, Section III of the URRT. It is based on CKY's estimate of 2019 projected expenses. We adjust the budget amount for ACA implementation expenses. Corporate overhead was allocated to CKY's individual line of business. This amount does not include any profit, risk load, taxes, or assessments described below. PMPMs within Table 7 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1.

Table 7 CareSource Kentucky Co. Projected 2019 Administrative Expenses		
	Administrative Expense	
	PMPM	% of Premium
General Admin	[REDACTED]	[REDACTED]
Quality Improvement / Health IT	[REDACTED]	[REDACTED]
Commercial Reinsurance Recoveries	[REDACTED]	[REDACTED]
Commercial Reinsurance Premiums	[REDACTED]	[REDACTED]
Total Administrative Expense Load	[REDACTED]	[REDACTED]

Note: Values are rounded.

Target Contribution to Surplus (a/k/a Profit) and Risk Margin

We include [REDACTED] of premium for a target pre-tax contribution to surplus that does not vary by product or plan. We do not include any additional loads for profit or risk. We consider the uncertainty of estimated claims in the 2019 market and federal MLR requirements in the target.

Taxes and Fees

Table 8 displays the projected taxes and fees that may be subtracted from premiums when calculating CKY's loss ratio for MLR purposes (with the exception of the \$0.15 risk adjustment fee that is shown net of risk adjustment payable and not in this section). We do not include any amount for the Health Insurer Fee in 2019 due to the moratorium on the fee. The composite value is displayed in Worksheet 1, Section III of the URRT. PMPMs within Table 8 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1.

Table 8 CareSource Kentucky Co. Summary of Taxes and Fees		
	Taxes and Fees	
Description	PMPM	% of Premium
State Premium Tax	[REDACTED]	[REDACTED]
Exchange Fee	[REDACTED]	[REDACTED]
GAP Assessment	[REDACTED]	[REDACTED]
Total Taxes and Fees	[REDACTED]	[REDACTED]

Note: Values are rounded.

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XI. PROJECTED LOSS RATIO

The projected loss ratio based on federally prescribed MLR methodology, excluding allowable adjustments, such as for credibility, quality improvement expenses, and high deductible is [REDACTED], as shown in Exhibit 3 (Exhibit 3 values may not tie to URRT Worksheet 1, Section III values due to rounding within URRT Worksheet 1).

XII. SINGLE RISK POOL

The experience includes all non-grandfathered HMO individual plans. We consider the 2017 ACA enrollment to be 100% credible.

XIII. INDEX RATE

Index Rate Development

The experience index rate represents the estimated total combined allowed EHB claims PMPM of CKY's non-grandfathered individual Kentucky plans. The index rate has not been adjusted for risk adjustment transfers, reinsurance fees / recoveries, or Exchange fees. The experience period index rate reflects the actual mixture of tobacco / non-tobacco population, area factors, and the actual mixture of risk morbidity that CKY received in the Single Risk Pool during the experience period.

The experience period index rate is less than the experience period total allowed claims PMPM since CKY covers non-EHBs in the 45636KY002 product.

The index rate for the projection period is a measurement of the average allowed claims PMPM for EHB benefits. The projected index rate reflects the projected 2019 mixtures of tobacco / non-tobacco population, area factors, and the projected mixture of risk morbidity that CKY expects to receive in the single risk pool. The projected index rate has not been adjusted for payments and charges projected under the risk adjustment and reinsurance programs, or for Exchange user fees.

We develop the 2019 projected index rate from the 2017 allowed claims PMPM. The experience index rate is shown in Worksheet 1, Section I of the URRT. The projected index rate is shown in Worksheet 1, Section III of the URRT. The projected index rate excludes coverage of non-EHBs.

Section V (Projection Factors Applied to Experience) describes the development of the projected index rate. The projected index rate covers a 12-month period for individuals effective January 1, 2019 through December 31, 2019. As described in Section V, the projected index rate reflects the anticipated claim level of the projection period with respect to trend, benefits, and demographics.

The projected index rate for January 1, 2019 through December 31, 2019 is [REDACTED], as shown in Worksheet 1, Section III of the URRT.

XIV. MARKET-ADJUSTED INDEX RATE

The market-adjusted index rate is calculated as the index rate adjusted for all allowable market-wide modifiers defined under the market rating rules in 45 CFR Part 156, §156.80(d)(1). Table 9 displays the development of the market-adjusted index rate.

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Table 9 CareSource Kentucky Co. Market Adjusted Index Rate Development	
2019 Index Rate PMPM	
Market Adjustments (Paid Basis)	
Net Risk Adjustment	
Net Transitional Reinsurance	
Exchange Fee	
Total Market Adjustments (Paid Basis)	
Paid to Allowed Ratio	
Total Market Adjustments (Allowed Basis)	
Market-Adjusted Index Rate PMPM	
<i>Note: Values are rounded.</i>	

XV. PLAN-ADJUSTED INDEX RATE

The market-adjusted index rate is adjusted to compute the plan-adjusted index rates using the following allowable adjustments:

Actuarial Value and Cost Sharing Adjustment

- The CMS Actuarial Value Calculator was used to determine the metal level actuarial value for each plan.
- The pricing actuarial value and cost-sharing adjustment was developed utilizing Milliman's 2016 HCGs. Relativities between plans were based on the differences in cost and utilization for varying levels of cost-sharing. Appendix B displays this development.
- The AV & Cost Sharing factors reflect full plan liability for CSR silver plans.

Provider Network, Delivery System, and Utilization Management Adjustment

CKY provided their estimated provider network reimbursement rates based on their contractually negotiated reimbursement arrangements to date. Negotiations are ongoing, and contractual provider reimbursements may vary from the ones we assume in our pricing. Section V. Projection Factors Applied to Experience provides additional details.

Adjustment for Benefits in Addition to the EHBs

Product 45636KY001 does not include any Non-EHB benefits, so we do not make an adjustment. We make an adjustment for all plans within Product 45636KY002 to include Non-EHB benefits of adult dental, eyewear, and routine eye examinations. Exhibit 4 shows the value of Non-EHBs in addition to EHBs.

Adjustment for Tobacco Premium Differential

CKY applies a tobacco premium load for users age 21 and over that varies by age. We determine this rate was reasonable as it results in a similar weighted average premium adjustment compared to the projected tobacco morbidity surcharge. Exhibit 5 displays the development of the tobacco adjustment factor.

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Adjustment for Distribution and Administrative Costs

Distribution and administrative costs were developed and applied to each plan as a mix of “percent of premium”, “percent of claim”, and PMPM bases.

The development of the plan-adjusted index rates are shown in Appendix B.

XVI. CALIBRATION

The approximate average age of the single risk pool to equal the correct age calibration factor is [REDACTED]. The age curve calibration is applied to all plans. We composite the CMS-approved premium factors by the projected membership at each age based on emerging 2018 membership. We then round the weighted average premium factor to the nearest table value to determine the average rounded age. Our development of the weighted average age calibration complies with the standard age curve methodology and with applicable rating rules. Exhibit 6 displays the development of the age calibration factor.

CKY applies geographic rating factors to its plans as shown in Table 10. The geographic rating factors were developed based on the area factors in Milliman’s HCGs, projected provider reimbursement discounts in each geographic area, and the relative geographic and reimbursement-based differences among areas used in the 2017 pricing. Exhibit 7 displays the development of the geographic calibration factor.

Table 10 CareSource Kentucky Co. Geographic Factors	
Rating Area	Factor
Rating Area 3	[REDACTED]
Rating Area 4	[REDACTED]
Rating Area 5	[REDACTED]
Rating Area 6	[REDACTED]
Rating Area 7	[REDACTED]
Rating Area 8	[REDACTED]

The development of the plan-adjusted calibrated index rates are shown in Appendix C.

XVII. CONSUMER-ADJUSTED PREMIUM RATE DEVELOPMENT

The consumer-adjusted premium rate is the final premium rate for a plan charged to an individual utilizing the rating and premium adjustments as articulated in the applicable market reform rating rules. It is the product of the plan adjusted index rate, the geographic rating factor, and the age rating factor. The tobacco rating factors are 1.00 for children and between [REDACTED] for ages 21 and over.

Appendix D summarizes Appendices A, B, and C and shows a consumer adjusted premium rate calculated from the index rate.

XVIII. AV METAL LEVELS

The AV Metal Values included in Worksheet 2, Section I of the URRT were developed using the CMS Actuarial Value calculator and are shown in Attachment B.

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XIX. AV PRICING VALUES

Appendix E provides a summary of the AV pricing values by plan, as illustrated in Worksheet 2, Section I, and a breakdown of the components attributable to each of the allowable modifiers to the index rate, as described in 45 CFR Part 156, §156.80(d)(2), to arrive at the plan level rate.

The AV and Cost Sharing factor calculation is the product of the non-normalized actuarial value and normalized benefit design behavior change factor from my pricing models. This calculation is shown in Appendix F. The impact of each plan's actuarial value and cost sharing includes the expected impact of each plan's benefit design on the member's utilization of services, excluding expected differences in the morbidity of the members assumed to select the plan. We use the Milliman *HCGs* to estimate the value of cost-sharing and relative utilization of services for each plan. Our pricing models assume the same demographic and risk characteristics for each plan priced, thereby excluding expected differences in the morbidity of members assumed to select the plan.

The AV pricing values reflect full plan liability for CSR silver plans.

XX. MEMBERSHIP PROJECTIONS

CKY projected membership (as displayed in Worksheet 2, Section IV of the URRT) is detailed in Section V and in Table 3 of this memorandum.

Methodology to Project Cost Sharing Reduction (CSR) Eligibles: We estimate CSR eligibles based on the actual 2018 distribution to date.

Projected Cost Sharing Reduction (CSR) Eligibles: For the Silver level plans, we assume a member will generally select the richest benefit plan the member qualifies for a given income level (we understand that some individuals will not select the richest subsidy for which they qualify based on personal preference, but we do not expect this impact to be material). This approach produced the distribution across the Silver level plans shown in Table 11.

Table 11 CareSource Kentucky Co. Assumed Member Distribution Across Silver Metal Tier	
Plan Name	Assumed Member Distribution
Silver 94%	
Silver 87%	
Silver 73%	
Silver 70%	

XXI. TERMINATED PRODUCTS

Exhibit 8 outlines the 2018 plans terminating prior to January 1, 2019 and the 2019 plan to which they are mapped, and 2019 renewing plans.

A number of 2017 plans were crosswalked prior to January 1, 2018. These are listed in Exhibit 8.

XXII. PLAN TYPE

CKY's plans are HMO plans as noted in Worksheet 2, Section I of the URRT.

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XXIII. WARNING ALERTS

There are no warning alerts in Worksheet 2, Section III of the URRT.

XXIV. EFFECTIVE RATE REVIEW INFORMATION

Information is available upon request.

XXV. RELIANCE

In preparing the Part I Unified Rate Review Template (URRT) and Part III Actuarial Memorandum, we rely on information provided to us by the CareSource management and its affiliates. To the extent that it is incomplete or inaccurate, the contents of the URRT and Actuarial Memorandum, along with many of our conclusions, may be materially affected.

We perform a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of the assignment.

A data reliance letter is attached to this rate submission.

XXVI. ACTUARIAL CERTIFICATION

I am an Actuary with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. This filing is prepared on behalf of CKY.

I certify to the best of my knowledge and judgment:

1. The projected index rate is:
 - In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)),
 - Developed in compliance with the applicable Actuarial Standards of Practice,
 - Reasonable in relation to the benefits provided and the population anticipated to be covered, and
 - Neither excessive nor deficient based on my best estimates of the 2018 individual market.
2. The index rate and only allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.
3. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.
4. The geographic rating factors reflect only differences in the costs of delivery (e.g., unit costs, provider practice pattern differences) and do not include differences for population morbidity by geographic area.
5. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the Part I Unified Rate Review Template for all plans.

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The Part I Unified Rate Review Template (URRT) does not demonstrate the process used to develop proposed premium rates. It is representative of information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally facilitated exchanges, and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The 2019 plan year premium rates provided in this Actuarial Memorandum were developed based upon the current Affordable Care Act (ACA) statutes and regulations in full force and effect as of date this Actuarial Memorandum is submitted. Accordingly, the 2019 plan year premium rates provided in this Actuarial Memorandum are contingent upon the current ACA statutes and regulations, including, but not limited to, the cost-sharing reduction subsidies not being funded, the advanced premium tax credits, and the individual mandate penalty not being enforced. CKY retains and reserves the right to amend this Actuarial Memorandum and 2019 plan premium rates accordingly should there be any material legislative or regulatory changes to the ACA. Also, we did not adjust rates for the potential impact from regulations governing short-term limited duration or association health plans since these proposals have not been finalized at this time. Depending on the nature of the final rules related to these proposals and their impact on the 2019 individual market, the proposed rates may not be adequate.

The information provided in this Actuarial Memorandum is in support of the items illustrated in the URRT and does not provide an actuarial opinion regarding the process used to develop proposed premium rates. It does certify that rates were developed in accordance with applicable regulations, as noted.

The results are actuarial projections. Actual experience will differ for a number of reasons including, but not necessarily limited to, population changes, claims experience, and random deviations from assumptions.



Attachments

RELIANCE LETTER



May 22, 2018

Mr. Erik Huth, FSA, MAAA
Principal and Consulting Actuary
Milliman, Inc.
15800 Bluemound Road, Suite 100
Brookfield, WI 53005-6069

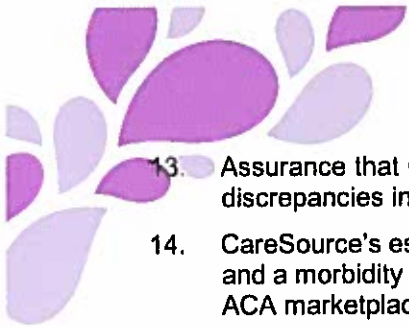
Re: CareSource Kentucky Co.'s 2019 Individual Pricing

Dear Erik:

I, Scott Brockman, VP of Actuarial Science, CareSource, Inc. hereby affirm the data sources, assumptions, and information identified below and provided to Milliman, Inc. for developing CareSource's 2019 individual commercial premium rates were prepared under my direction. These items were relied upon by Milliman and are, to the best of my knowledge, accurate and complete. Finally, I affirm all information that affects the 2019 individual premium rate development has been given to you, and I have disclosed all items of which I am aware that would have a material impact on the rate projections.

The information provided includes:

1. Specific 2018 plans CareSource intends to renew or terminate,
2. Benefit plans and networks CareSource offers in 2019,
3. The rating regions in each state in which CareSource offers products in 2019,
4. HIOS Product Names, Product IDs, and Plan Names for each 2019 benefit plan,
5. Renewal / new plan status based on compliance with the Uniform Modification regulations.
6. Historical 2017 claim experience and membership for CareSource's products and plans,
7. Estimates of CareSource's 2017 risk adjustment transfer payments/receivables, federal reinsurance recoveries, and cost-sharing subsidy receipts,
8. Confirmation that the cost relativity associated with each rating area provided by CareSource does not include the impact of morbidity,
9. Projected administrative expenses and target profit margin,
10. Emerging 2018 enrollment by county and plan,
11. Description of contractual provider reimbursement arrangements, including 2017 and projected 2019 provider discounts by service category,
12. Other information provided by CareSource in various meetings, phone calls, emails, and other correspondence,

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13. Assurance that CareSource has completed the plan benefit template and has found no meaningful discrepancies in Actuarial Value calculations.
 14. CareSource's estimated values for a morbidity increase due to the removal of the individual mandate and a morbidity increase to reflect the adverse selection due to the exit of competitors from the 2019 ACA marketplace.

May 22, 2018
Date


Signature